

PLAINS AREA MENTAL HEALTH, INC.
LE MARS, IOWA

INDEPENDENT AUDITORS' REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

JUNE 30, 2005

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PLAINS AREA MENTAL HEALTH, INC.
BOARD OF DIRECTORS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Mike Donlin	President	2006
Mary Tuttle	Vice-President	2005
Rev. Matthew Draffen	Secretary	2007
Wayne Meylor	Treasurer	2005
Dan McCarty	Member	2006
Zona Carlson	Member	2005
Sandy Boerner	Member	2006
Gladys Mortenson	Member	2005
Patrick Murphy	Member	2007
Val Droog	Member	2007
Patrick Schmitz	Executive Director	Started 3/1/04

COUNTY BOARD LIASONS:

Edwin Clow	Cherokee County Supervisor
Jim Henrich	Plymouth County Supervisor
Jerry Ralston	Ida County Supervisor

INDEPENDENT AUDITORS' REPORT

Board of Directors
Plains Area Mental Health, Inc.
Le Mars, Iowa

We have audited the accompanying statements of financial position, of Plains Area Mental Health, Inc. (a nonprofit organization) as of and for the year ended June 30, 2005, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. Information for the year ended June 30, 2004 is presented for comparative purposes only and was extracted from the financial statements presented by fund for that year, on which an unqualified opinion dated August 19, 2004, was expressed.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Plains Area Mental Health, Inc. at June 30, 2005, and changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 17, 2005 on our consideration of Plains Area Mental Health, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The information on page 17 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the aforementioned financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

BURKHARDT & DAWSON, CPA's

Certified Public Accountants

August 17, 2005

PLAINS AREA MENTAL HEALTH, INC.
LE MARS, IOWA
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2005
WITH COMPARATIVE TOTALS FOR 2004

	2005			2004
	UNRE- STRICTED FUND	FURNITURE, FIXTURES AND EQUIPMENT FUND	TOTAL	TOTAL
ASSETS				
CURRENT ASSETS:				
Cash on Hand	\$ 2,469	\$ 0	\$ 2,469	\$ 1,973
Cash in Savings and Money Market Funds	14,546	448	14,994	82,282
Accounts Receivable, Net of Allowance for Doubtful Accounts and Rate Adjustments of \$177,400 and \$196,800 at June 30, 2005 and 2004, Respectively	224,331	0	224,331	206,667
Other Receivables	32,331	0	32,331	52,992
Grant Receivables	8,000	0	8,000	10,443
Prepaid Expenses	9,505	0	9,505	20,493
Marketable Securities	<u>27,371</u>	<u>0</u>	<u>27,371</u>	<u>25,230</u>
 TOTAL CURRENT ASSETS	 <u>\$318,553</u>	 <u>\$ 448</u>	 <u>\$319,001</u>	 <u>\$ 400,080</u>
FURNITURE, FIXTURES AND EQUIPMENT:				
Leasehold Improvements	\$ 0	\$ 29,831	\$ 29,831	\$ 29,831
Office Furniture and Equipment	<u>0</u>	<u>204,735</u>	<u>204,735</u>	<u>258,629</u>
 TOTAL	 \$ 0	 \$234,566	 \$234,566	 \$ 288,460
 LESS - Accumulated Depreciation	 <u>0</u>	 <u>167,904</u>	 <u>167,904</u>	 <u>212,854</u>
 NET FURNITURE, FIXTURES AND EQUIPMENT	 <u>\$ 0</u>	 <u>\$ 66,662</u>	 <u>\$ 66,662</u>	 <u>\$ 75,606</u>
OTHER ASSETS:				
Investments	\$ 11,000	\$ 0	\$ 11,000	\$ 12,575
 TOTAL ASSETS	 <u>\$329,553</u>	 <u>\$ 67,110</u>	 <u>\$396,663</u>	 <u>\$ 488,261</u>

See accompanying notes to financial statements

	2005			2004
	UNRE- STRICTED FUND	FURNITURE, FIXTURES AND EQUIPMENT FUND	TOTAL	TOTAL
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Checks in Excess of Deposits	\$ 0	\$ 0	\$ 0	\$ 1,426
Accounts Payable	27,360	0	27,360	40,247
Payroll Taxes Payable	6,572	0	6,572	6,047
Accrued Salaries	52,368	0	52,368	43,793
Accrued Pension Payable	<u>12,550</u>	<u>0</u>	<u>12,550</u>	<u>7,197</u>
TOTAL CURRENT LIABILITIES	<u>\$ 98,850</u>	<u>\$ 0</u>	<u>\$ 98,850</u>	<u>\$ 98,710</u>
NET ASSETS:				
Unrestricted:				
Board Designated	\$ 0	\$ 0	\$ 0	\$ 37,880
Undesignated	<u>230,703</u>	<u>67,110</u>	<u>297,813</u>	<u>351,671</u>
TOTAL NET ASSETS	<u>\$230,703</u>	<u>\$ 67,110</u>	<u>\$297,813</u>	<u>\$ 389,551</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$329,553</u>	<u>\$ 67,110</u>	<u>\$396,663</u>	<u>\$ 488,261</u>

PLAINS AREA MENTAL HEALTH, INC.
LE MARS, IOWA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005
WITH COMPARATIVE TOTALS FOR 2004

	<u>2005</u>			<u>2004</u>
	<u>UNRE- STRICTED FUND</u>	<u>FURNITURE, FIXTURES AND EQUIPMENT FUND</u>	<u>TOTAL</u>	<u>TOTAL</u>
PUBLIC SUPPORT AND REVENUES:				
Public Support:				
Contributions	\$ 725	\$ 0	\$ 725	\$ 835
Fees and Grants				
From Governmental				
Agencies	333,801	0	333,801	434,694
Outpatient and				
Community				
Services	1,122,534	0	1,122,534	1,213,043
Investment/Dividend				
Income	13,368	81	13,449	13,345
Recovery of Bad				
Debts	6,498	0	6,498	3,373
Miscellaneous				
Income	44,901	0	44,901	45,721
Gain on Sale of				
Equipment	0	6	6	0
(Loss) on Sale of				
Investments	(158)	0	(158)	(394)
Unrealized Gain				
(Loss) on				
Investments	<u>2,141</u>	<u>0</u>	<u>2,141</u>	<u>(3,389)</u>
 TOTAL PUBLIC SUPPORT AND REVENUES	 <u>\$1,523,810</u>	 <u>\$ 87</u>	 <u>\$1,523,897</u>	 <u>\$1,707,228</u>
EXPENSES:				
Program Services:				
Outpatient and				
Community				
Support				
Services	\$ 901,136	\$ 0	\$ 901,136	\$1,025,943
Special Program				
Costs	<u>94,938</u>	<u>0</u>	<u>94,938</u>	<u>104,516</u>
 TOTAL PROGRAM SERVICES	 \$ 996,074	 \$ 0	 \$ 996,074	 \$1,130,459

PLAINS AREA MENTAL HEALTH, INC.
LE MARS, IOWA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005
WITH COMPARATIVE TOTALS FOR 2004

	2005			2004
	UNRE- STRICTED FUND	FURNITURE, FIXTURES AND EQUIPMENT FUND	TOTAL	TOTAL
EXPENSES - CONTINUED:				
Supporting Services:				
Management and General	<u>602,837</u>	<u>16,724</u>	<u>619,561</u>	<u>578,481</u>
TOTAL EXPENSES	<u>\$1,598,911</u>	<u>\$ 16,724</u>	<u>\$1,615,635</u>	<u>\$1,708,940</u>
CHANGES IN NET ASSETS	\$ (75,101)	\$ (16,637)	\$ (91,738)	\$ (1,712)
OTHER CHANGES IN NET ASSETS:				
Equipment Acquisitions (Net of Disposals) From Unrestricted Fund	53,894	(53,894)	0	0
Transfer of Funds to Furniture, Fixtures and Equipment Fund	11,030	(11,030)	0	0
Transfer of Funds to Unrestricted Fund	(61,668)	61,668	0	0
NET ASSETS AT BEGINNING OF YEAR	<u>302,548</u>	<u>87,003</u>	<u>389,551</u>	<u>391,263</u>
NET ASSETS AT END OF YEAR	<u>\$ 230,703</u>	<u>\$ 67,110</u>	<u>\$ 297,813</u>	<u>\$ 389,551</u>

See accompanying notes to financial statements

PLAINS AREA MENTAL HEALTH, INC.
LE MARS, IOWA
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2005
WITH COMPARATIVE TOTALS FOR 2004

	2005		
	<u>PROGRAM SERVICES</u>		
	<u>ADM GRANT</u>	<u>AREA IV AGENCY ON AGING</u>	<u>OUTPATIENT AND COMMUNITY SUPPORT SERVICES</u>
Salaries and Wages	\$ 37,897	\$ 24,520	\$422,798
Employee Benefits and Payroll Taxes	2,852	3,626	172,792
Employee Travel and Transportation	<u>0</u>	<u>2,267</u>	<u>11,468</u>
TOTAL SALARIES AND RELATED EXPENSES	\$ 40,749	\$ 30,413	\$607,058
Contracted Services	17,209	0	219,438
Professional Development	0	262	3,681
Supplies, Books and Literature	0	971	18,554
Telephone	0	2,025	15,147
Postage	0	918	5,336
Repairs and Maintenance	0	0	0
Rents	0	0	0
Conferences, Conventions and Meetings	0	490	401
Membership Dues and Subscriptions	0	0	615
Insurance	0	1,229	23,242
Miscellaneous	0	0	183
Advertising and Recruitment	0	672	7,481
Professional Services	0	0	0
Bad Debts	0	0	0
Utilities	0	0	0
Moving Expense	0	0	0
Loss on Sale of Equipment	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL EXPENSES BEFORE DEPRECIATION	\$ 57,958	\$ 36,980	\$901,136
Depreciation	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL EXPENSES	<u>\$ 57,958</u>	<u>\$ 36,980</u>	<u>\$901,136</u>

See accompanying notes to financial statements

<u>2005</u>		<u>2004</u>
<u>SUPPORTING</u> <u>SERVICES</u> <u>MANAGE-</u> <u>MENT</u> <u>AND</u> <u>GENERAL</u>	<u>TOTAL</u> <u>PROGRAM</u> <u>AND</u> <u>SUPPORTING</u> <u>SERVICES</u> <u>EXPENSES</u>	<u>TOTAL</u> <u>PROGRAM</u> <u>AND</u> <u>SUPPORTING</u> <u>SERVICES</u> <u>EXPENSES</u>
\$318,000	\$ 803,215	\$ 744,169
66,456	245,726	214,907
<u>5,977</u>	<u>19,712</u>	<u>17,695</u>
\$390,433	\$1,068,653	\$ 976,771
0	236,647	426,688
607	4,550	4,688
2,050	21,575	23,779
409	17,581	17,057
0	6,254	7,657
20,877	20,877	19,027
89,197	89,197	83,240
2,762	3,653	3,677
4,779	5,394	5,160
2,660	27,131	24,167
2,331	2,514	3,959
730	8,883	15,363
25,698	25,698	27,556
42,916	42,916	29,081
17,388	17,388	16,332
0	0	7,493
<u>0</u>	<u>0</u>	<u>1,980</u>
\$602,837	\$1,598,911	\$1,693,675
<u>16,724</u>	<u>16,724</u>	<u>15,265</u>
<u>\$619,561</u>	<u>\$1,615,635</u>	<u>\$1,708,940</u>

PLAINS AREA MENTAL HEALTH, INC.
LE MARS, IOWA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005
WITH COMPARATIVE TOTALS FOR 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (91,738)	\$ (1,712)
Adjustments to Reconcile Change in Net Assets to Net Cash Used for Operating Activities:		
(Gain) Loss on Sale of Equipment	(6)	1,980
Depreciation	16,724	15,265
Net Unrealized (Gain)/Loss on Investments	(2,141)	3,389
Realized Loss on Investments	157	394
(Increase) Decrease in:		
Accounts Receivable	(17,664)	(57,265)
Other Receivables	20,661	(6,036)
Grant Receivables	2,443	(765)
Prepaid Expenses	10,988	(245)
Increase (Decrease) in:		
Accounts Payable	(12,887)	(2,558)
Payroll Taxes Payable	525	(6,576)
Accrued Salaries	8,575	4,561
Accrued Pension Payable	<u>5,353</u>	<u>566</u>
NET CASH (USED FOR) OPERATING ACTIVITIES	<u>\$ (59,010)</u>	<u>\$ (49,002)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds From Sale of Equipment	\$ 300	\$ 20
Purchase of Equipment	(8,074)	(33,059)
Redemption of Marketable Equity Security	0	16,250
Purchase of Investment	0	(45,262)
Proceeds From Sale of Investment	<u>1,418</u>	<u>0</u>
NET CASH (USED FOR) INVESTING ACTIVITIES	<u>\$ (6,356)</u>	<u>\$ (62,051)</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>\$ (65,366)</u>	<u>\$ (111,053)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>82,829</u>	<u>193,882</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 17,463</u>	<u>\$ 82,829</u>

PLAINS AREA MENTAL HEALTH, INC.
LE MARS, IOWA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005
WITH COMPARATIVE TOTALS FOR 2004

	<u>2005</u>	<u>2004</u>
COMPONENTS OF CASH AND CASH EQUIVALENTS:		
Cash on Hand	\$ 2,469	\$ 1,973
Checks in Excess of Deposits	0	(1,426)
Cash in Savings and Money Market Accounts	<u>14,994</u>	<u>82,282</u>
	<u>\$ 17,463</u>	<u>\$ 82,829</u>
SUPPLEMENTAL DISCLOSURES:		
Interest Paid	<u>\$ 0</u>	<u>\$ 0</u>

See accompanying notes to financial statements

PLAINS AREA MENTAL HEALTH, INC.
LE MARS, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

REPORTING ENTITY - The Center is a nonprofit corporation established to provide a comprehensive community mental health program for the diagnosis and treatment of psychiatric and psychological disorders and to promote the prevention of mental illness. Services are provided to residents of Cherokee, Ida, Plymouth, Sioux and Buena Vista Counties.

The Center is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law, which provide tax exemption for corporations organized and operated exclusively for religious, charitable, or educational purposes.

FUND ACCOUNTING - The accounts of the Center are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, net assets, revenues and expenses. The various funds are grouped as follows in the financial statements:

UNRESTRICTED FUND - This fund is utilized to account for the daily transactions of the Center that are not properly recorded in another fund.

The Center's Board may designate portions of the current unrestricted fund for specific purposes, projects or investment as an aid in the planning of expenses and the conservation of assets. The Center maintains separate accounts for such designations within the current unrestricted fund and segregates the designated and undesignated portions of the fund within the net assets section of the balance sheet.

FURNITURE, FIXTURES AND EQUIPMENT FUND - This fund is established to account for all furniture and equipment of the Center and provide funds for replacements.

PLAINS AREA MENTAL HEALTH, INC.
LE MARS, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

FURNITURE, FIXTURES AND EQUIPMENT - Furniture and equipment is stated at cost. Expenditures for additions and betterments are capitalized, while expenditures for maintenance and repairs are charged to expenses as incurred. The cost of assets retired or sold and the related accumulated depreciation are eliminated from the accounts in the year of disposal, with the resulting gain or loss credited or charged to operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. No interest costs were capitalized since there were no qualifying assets.

BASIS OF ACCOUNTING - Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

Purchases of fixed assets providing future benefits are directly charged against the unrestricted fund balance and capitalized in the furniture, fixtures and equipment fund.

BASIS OF PRESENTATION - Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Center and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

PLAINS AREA MENTAL HEALTH, INC.
LE MARS, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

CASH AND CASH EQUIVALENTS - The Center considers cash on hand and demand deposits in banks as cash, and certificates of deposit with original maturities of three months or less as cash equivalents. There were no cash equivalents at June 30, 2005 and 2004.

RECEIVABLES - Receivables are shown at the amount expected to be collected after determining the allowances for doubtful accounts based on an aging of all the individual patient balances.

MARKETABLE EQUITY SECURITIES - The Center's marketable securities are classified as available for sale and consist of equity securities that have a readily determinable fair market value. Management determines the appropriate classification of its investments at the time of purchase and re-evaluates such determinations at each balance sheet date.

Realized gains and losses on all marketable securities are determined by specific identification and are charged or credited to current earnings.

ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

DONATED MATERIALS - Donated materials are recognized as contributions and valued at fair market value at receipt.

COMPENSATED ABSENCES - Center employees accumulate a limited amount of earned but unused vacation benefits payable to employees. Amounts representing the cost of compensated absences are recorded as liabilities and have been computed based on rates of pay in effect at June 30, 2005 and 2004.

PROMISES TO GIVE - Contributions are recognized when the donor makes a promise to give to the Center that is, in substance, unconditional.

PLAINS AREA MENTAL HEALTH, INC.
LE MARS, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

NET PATIENT SERVICE REVENUE - Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

TOTAL COLUMN - The total column on the statement of financial position and the statement of activities is presented to facilitate financial analysis. Data in these columns does not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2 - INVESTMENTS:

Cost and fair market value of marketable securities available for sale at June 30, 2005 and 2004 are as follows:

<u>YEAR</u>	<u>COST</u>	<u>UNREALIZED LOSSES</u>	<u>FAIR VALUE</u>
2005	\$ 28,619	\$ 1,248	\$ 27,371
2004	\$ 28,619	\$ 3,389	\$ 25,230

NOTE 3 - DESCRIPTION OF LEASING ARRANGEMENTS:

OPERATING LEASES:

The Center rents space for the Le Mars and Cherokee offices under noncancellable operating leases. The Center also rents space from Buena Vista Regional Medical Center under a noncancellable operating lease. The Center rented a copier for the Le Mars office under a noncancellable operating lease, which expired May 17, 2004. The operating lease expense under noncancellable operating leases was \$85,140 and \$69,760 for the years ended June 30, 2005 and 2004, respectively. The following schedule shows the minimum future rental payments due under the leases.

PLAINS AREA MENTAL HEALTH, INC.
LE MARS, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 3 - DESCRIPTION OF LEASING ARRANGEMENTS - CONTINUED:

<u>YEAR ENDED</u>	<u>AMOUNT</u>
2006	\$ 85,240
2007	84,640
2008	84,640
2009	84,640
2010	84,640
Thereafter	<u>269,187</u>
 TOTAL	 <u>\$692,987</u>

The Cherokee office subleases a portion of their office space. The LeMars office subleases a portion of their office space under a noncancellable one year lease. Total rent earned for the years ended June 30, 2005 and 2004 was \$26,794 and \$21,652, respectively. The following schedule shows the minimum future rental income from the sublease.

<u>YEAR ENDED</u>	<u>AMOUNT</u>
2005	<u>\$ 9,163</u>

NOTE 4 - CONTINGENCIES:

Center employees can accumulate up to 480 sick leave hours for subsequent use. These accumulations are not recognized as expenditures until used. The Center's appropriate maximum liability for unrecognized accrued employee benefits at June 30, 2005 and 2004 is \$80,866 and \$71,694, respectively.

NOTE 5 - DEFINED CONTRIBUTION PENSION PLAN:

Effective June 1, 1996, the Center adopted a profit sharing pension plan covering substantially all of its full-time employees. The Center contributes 5% of covered employees salaries. Pension expense amounted to \$24,883 and \$22,584 for 2005 and 2004, respectively. Previously the Center had a defined contribution pension plan. Plan assets remain in this plan but no new contributions will be made.

NOTE 6 - OTHER ASSETS:

The Center has joined with other similar agencies to form Tri-State Behavioral Health Association. This is a nonprofit group formed to benefit its members. The original investment was \$11,000. It is carried at cost.

PLAINS AREA MENTAL HEALTH, INC.
LE MARS, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 6 - OTHER ASSETS - CONTINUED:

The Center invested \$1,575 in an insurance company to participate in their insurance program. It was carried at cost.

In the fiscal year ended June 30, 2005, the Center sold it's shares in the insurance company. Proceeds from the sale were \$1,418. A loss of \$157 was recorded as a result of the sale.

NOTE 7 - RISK MANAGEMENT:

Plains Area Mental Health, Inc. is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. These risks are covered by commercial insurance purchased from independent third parties. The Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

SUPPLEMENTAL INFORMATION

PLAINS AREA MENTAL HEALTH, INC.
LE MARS, IOWA
SCHEDULE OF FEES AND GRANTS FROM GOVERNMENTAL AGENCIES
FOR THE YEAR ENDED JUNE 30, 2005
WITH COMPARATIVE TOTALS FOR 2004

	<u>2005</u>	<u>2004</u>
COUNTY ALLOTMENTS:		
Plymouth County, Iowa	\$135,775	\$128,008
Sioux County, Iowa	0	115,853
Cherokee County, Iowa	72,643	66,198
Ida County, Iowa	45,649	53,000
Other Iowa Counties	<u>13,865</u>	<u>4,686</u>
	<u>\$267,932</u>	<u>\$367,745</u>
ADM GRANT:		
Department of MH/MR/DD	<u>\$ 36,562</u>	<u>\$ 46,276</u>
ELDERLY PEER GRANT:		
Area IV Agency on Aging	<u>\$ 9,600</u>	<u>\$ 9,600</u>
HEAD START GRANT:		
Mid-Sioux Opportunity, Inc. Head Start Program	<u>\$ 8,000</u>	<u>\$ 8,000</u>
SENIOR LIVING TRUST PROGRAM GRANT:		
Northwest Aging Associates	<u>\$ 1,500</u>	<u>\$ 668</u>
RURAL CRISIS	<u>\$ 0</u>	<u>\$ 2,405</u>
MOC FLOYD VALLEY GRANT	<u>\$ 500</u>	<u>\$ 0</u>
JAIL SERVICES	<u>\$ 5,690</u>	<u>\$ 0</u>
FAMILY TEAM	<u>\$ 4,017</u>	<u>\$ 0</u>
	<u>\$333,801</u>	<u>\$434,694</u>

See accompanying independent auditors' report

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Plains Area Mental Health, Inc.

We have audited the financial statements of Plains Area Mental Health, Inc. as of and for the year ended June 30, 2005, and have issued our report thereon dated August 17, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Plains Area Mental Health, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Plain Area Mental Health, Inc.'s ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether Plains Area Mental Health, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

This report, a public record by law, is intended solely for the information and use of Plains Area Mental Health, Inc. and other parties to whom the Center may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Plains Area Mental Health, Inc. during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BURKHARDT & DAWSON, CPA's

Certified Public Accountants

August 17, 2005

PLAINS AREA MENTAL HEALTH, INC.
LE MARS, IOWA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

REPORTABLE CONDITIONS:

- (A) Segregation of Duties - During our review of internal control, the existing procedures are evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the Center's financial statements. We noted one individual has custody of receipts and performs all recordkeeping and reconciling functions for the office.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the Center should review the operating procedures to obtain the maximum internal control possible under the circumstances.

Response - The Center segregates duties to the best of its ability with the limited number of staff employed.

Conclusion - Response accepted.

- (B) Client Files - In a client file, there was an instance where the therapist's notes for another client were in the file with a charge for the day. It appears the therapist saw both clients the same day and his notes were incorrectly filed.

In another instance, in another client's file, there were notes by the therapist (same one as above) that were not noted as billed in the accounts receivable billing for that client.

Recommendation - Plains Area Mental Health, Inc. should take care to ensure that all therapists' notes are properly filed and that all services are properly and timely billed.

Response - During the course of the fiscal year which was the focus of the financial audit, Plains Area Mental Health, Inc.'s Quality Assurance staff and Administrative staff were in the process of developing new protocols and forms to address the issues identified above. This was done due to our own internal audit that had identified similar concerns. Beginning in May of 2005 and continuing into July of 2005, the new protocols and forms were implemented. The new procedures include clinical staff completing documentation at the time of service, filing that documentation into the client's file immediately, and turning in billing information at the end of the session. This should result in decreased filing and billing errors. Additionally, we have designed the Service Note to include the Billing/Encounter Form as part of the document. With this new design, we should see a further reduction in billing errors.

Conclusion - Response accepted.